

Message Text

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ACTION NEA-09

INFO OCT-01 EUR-12 EA-06 ISO-00 AID-05 EB-07 COME-00

TRSE-00 CIAE-00 DODE-00 PM-03 H-02 INR-07 L-02

NSAE-00 NSC-05 PA-01 PRS-01 SP-02 SS-15 USIA-06 SIL-01

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P R 100735Z APR 75

FM AMEMBASSY ISLAMABAD

TO SECSTATE WASHDC PRIORITY 9577

INFO AMEMBASSY DACCA

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AMCONSUL LAHORE

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STATE PASS USAID

E.O. 11652: N/A

TAGS: EGEN, EFIN, PINT, PK

SUBJECT: GOP DOMESTIC PRICE POLICY MOVES

REF: (A) ISLAMABAD 5580, (B) ISLAMABAD 9004 (NOTAL),
(C) ISLAMABAD 1319 (NOTAL), (D) TOAID A-087

BEGIN SUMMARY: THE GOVERNMENT OF PAKISTAN ANNOUNCED
APRIL 7, A NEW PACKAGE OF PRICE-WAGE ADJUSTMENTS. THIS IS
THE THIRD SUCH ADJUSTMENT THIS FISCAL YEAR. THE LATEST PRICE
ADJUSTMENT RAISES ISSUE PRICES OF WHEAT 49 PERCENT, EDIBLE
OIL 20 PERCENT AND SUGAR 14 PERCENT WHILE SIMULTANEOUSLY
CUTTING RATION SHOP ALLOTMENTS OF SUGAR BY A FOURTH. THERE WAS
NO ANNOUNCEMENT OF A CHANGE IN WHAT PROCUREMENT PRICES.
GOP ANNOUNCEMENT NOTED THE PRICE CHANGES WOULD BRING ABOUT
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QUOTE MORE RATIONAL AND MANAGEABLE PRICES AND SUBSIDY UNQUOTE.

WE EXPECT THE NET FISCAL EFFECT OF THE NEW MEASURES TO BE ESSENTIALLY ZERO THIS FY, WITH BENEFITS TO ACCRUE IN NEXT. THOUGH THE TOTAL OUTLAY ON SUBSIDIES WILL BE REDUCED BY RS. 200 MILLION (ABOUT 20 PERCENT), AND THE GOP WILL ADDITIONALLY GAIN RS. 60 MILLION FROM HIGHER SUGAR PRICES, THIS INCREASE IN GOP RESOURCES TOTALLING RS. 260 MILLION WILL BE OFFSET BY THE HIGHER GOVERNMENT WAGE BILL. THE FEDERAL GOVERNMENT'S WAGE BILL ALONE WILL GO UP BY RS. 150 MILLION IN THIS FISCAL YEAR, WHEREAS THE PROVINCIAL WAGE BILL WILL REQUIRE A FURTHER ALLOTMENT FROM THE CENTER OF RS. 110 MILLION. HOWEVER, WE CONSIDER MOVE A LONG NEEDED, POSITIVE STEP (TAKEN JUST BEFORE AID CONSORTIUM MEETING) TOWARD LESSENING OF PRICE DISTORTIONS AND TO TIGHTEN BELTS TO HELP MOBILIZE RESOURCES FOR DEVELOPMENT. IT CLEARLY WILL DAMPEN TENDENCY TO INCREASING USE OF RATION SHOP SYSTEM, PARTICULARLY FOR SHORTENING. THERE IS SOME CONCERN THAT THIS INCREASE IN WAGES AND PSYCHOLOGY OF PRICE CHANGE WILL BE FOLLOWED BY GENERAL PRICE INCREASE. INITIAL PUBLIC REACTIONS HAVE BEEN SHARPLY ADVERSE AS PROCESSIONS AND DEMONSTRATIONS ERUPTED IN MAJOR CITIES APRIL 8 AND 9 BUT WE EXPECT GOP WILL EASILY CONTAIN THESE CHALLENGES TO LAW AND ORDER. END SUMMARY.

1. THE GOP ANNOUNCED APRIL 7, A NEW INCREASE ISSUE PRICE (WHOLESALE PRICE AT WHICH WHEAT SOLD FROM GOVERNMENT STOCKS) FOR WHEAT AT RS 32 PER MAUND (ABOUT \$87/MT). PREVIOUS LEVEL WAS RS 21.50 PER MAUND OR \$58/MT. THIS BRINGS THE ISSUE PRICE FOR WHEAT CLOSER TO GOVERNMENT PROCUREMENT PRICE FOR WHEAT WHICH WAS INCREASED AT PLANTING TIME IN SEPTEMBER 1974 FOR APPLICATION TO THIS SPRING 1975 HARVEST) TO RS 37 PER MAUND OR \$100/MT (REF C). THE SUBSIDY ON DOMESTIC WHEAT TO BE HARVESTED BEGINNING LATER THIS MONTH WILL NOW BE RS 5 PER MAUND (\$13.50/MT). IF THE INCREASE IN THE ISSUE PRICE HAD NOT BEEN IMPLEMENTED THE SUBSIDY WOULD HAVE BEEN RS 15.50 PER MAUND (\$41.95/MT). THE SUBSIDY ON LAST HARVEST'S CROP (APRIL 1974) WAS RS 4 PER MAUND OR \$10.80/MT. GOP OFFICIAL STATEMENTS ESTIMATE THE SUBSIDY ON IMPORTED WHEAT (AVERAGE) WILL NOW BE RS 28 PER MAUND OR \$76/MT.

2. THE NEW WHEAT FLOUR PRICES AT RATION SHOPS WILL BE SET BY PROVINCIAL GOVERNMENTS -- SIND HAS SET RATION SHOP PRICE AT LIMITED OFFICIAL USE

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RS 36 PER MAUND OR \$97/MT COMPARED WITH PREVIOUS PRICE OF RS 23.87/MAUND OR \$65/MT. PUNJAB HAS SET A RATION SHOP PRICE OF RS 34.80 PER MAUND (\$94/MT). PRICES IN THE OTHER PROVINCES WILL NOT VARY MARKEDLY FROM PUNJAB AND SIND PRICES.

3. THE PRICE FOR VANASPATI GHEE (VEGETABLE SHORTENING) HAS BEEN RAISED FROM RS 7.50 PER SEER OR US CENTS 37 PER POUND TO RS 9 PER SEER OR US CENTS 44 PER POUND. THE

MAXIMUM RETAIL PRICE IN 2 LBS. TINS WILL NOW BE RS 9.75 FOR 2 LBS. GOP STATEMENT STRESSES RECENT SHARP INCREASES IN WORLD PRICES OF EDIBLE OIL NECESSITATED THIS INCREASE IN DOMESTIC PRICES. THE ANNOUNCEMENT NOTED THAT THIS IS A MORE RAPID RATE THAN THE COUNTRY COULD AFFORD. CONSUMPTION OF EDIBLE OIL IN RECENT YEARS HAS BEEN INCREASING AT THE ANNUAL RATE OF ABOUT 10 PERCENT BUT IMPORTS HAVE GROWN MUCH FASTER. THE NATIONALIZED GHEE INDUSTRY IN PAKISTAN HAS HAD CONSIDERABLE PROBLEMS WITH COST INCREASES. PRICE ELASTICITY OF SHORTENING IN PAKISTAN HAS BEEN ESTIMATED AS QUITE HIGH (ABOUT .38) INCREASED PRICE SHOULD AT LEAST RESTRAIN INCREASE IN CONSUMPTION.

4. THE GOVERNMENT ALSO ANNOUNCED INCREASED SUGAR PRICES FROM RS 3.50 PER SEER (US CENTS 17 PER POUND) TO RS 4 PER SEER (US CENTS 20 PER POUND). DURING THE CURRENT YEAR SUGAR CANE PRODUCTION DECLINED DUE TO WATER SHORTAGE, CROP DISEASES, AND A REPORTED 7 PERCENT DECLINE IN ACREAGE. UNOFFICIAL ESTIMATES SUGGEST OVERALL PRODUCTION OF SUGARCANE DECLINED 12 PERCENT WHILE THE GOP ESTIMATES STATE CONTROLLED REFINED SUGAR PRODUCTION HAS DECLINED BY ABOUT 19 PERCENT FROM 589,000 TONS IN 1973-74 TO AN ESTIMATED 475,000 TONS FOR 1974-75. THE GOP HAS ALSO A 25 PERCENT RATION QUOTA REDUCTION FOR URBAN CONSUMERS OF SUGAR FROM 2 LBS. TO 1 1/2 LBS. PER MONTH.

5. THE BUDGETARY IMPACT OF THESE MEASURES DURING THE REMAINDER OF THIS FISCAL YEAR (APRIL THRU JUNE) WILL BE A REDUCTION ON OUTLAYS FOR THE WHEAT SUBSIDY DURING THE REMAINDER OF THIS FISCAL YEAR OF ABOUT RS 170 MILLION, EDIBLE OIL SUBSIDY RS 32 MILLION, AND AN ADDITIONAL REVENUE OF RS 60 MILLION FROM INCREASED PRICES OF SUGAR. THUS OVERALL, IMPACT OF THE NEW PRICE PACKAGE ON THE GOP FEDERAL BUDGET REMAINDER OF THIS FISCAL YEAR WILL BE ADDITIONAL RESOURCES OF ABOUT RS 260 MILLION LIMITED OFFICIAL USE

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(EQUIVALENT \$26M ILLION.) FOR FISCAL YEAR 1975/76, HOWEVER, SUBSIDY ON NEW PROCUREMENTS WILL BE GREATER THAN IT HAD BEEN IN FY 74/75.

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ACTION NEA-09

INFO OCT-01 EUR-12 EA-06 ISO-00 CIAE-00 DODE-00 PM-03 H-02

INR-07 L-02 NSAE-00 NSC-05 PA-01 PRS-01 SP-02 SS-15

USIA-06 AID-05 EB-07 COME-00 TRSE-00 OMB-01 AGR-05

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6. THE GOP ANNOUNCED AN INCREASE OF RS 25 PER MONTH AS A MANDATORY COST OF LIVING ALLOWANCE FOR ALL EMPLOYEES OF GOVERNMENT, SEMI-GOVERNMENT, PUBLIC ENTERPRISES AND PRIVATE COMMERCIAL AND INDUSTRIAL WORKERS. THE GOP CONSIDERS THAT THIS NEW WAGE PACKAGE WILL OFF-SET THE ADDITIONAL COSTS TO CONSUMERS OF VARIOUS INCOME GROUPS, FOR WHEAT EDIBLE OIL AND SUGAR. WE ESTIMATE THAT DURING THE REMAINDER OF THIS FISCAL YEAR THE FEDERAL GOVERNMENT ALONE WILL INCUR AN ADDITIONAL WAGE COST OF RS 150 MILLION WHICH IS ABOUT 5 PERCENT OF THE TOTAL FEDERAL WAGE BILL (EXCLUDING DEFENSE SERVICES PERSONNEL WAGES). GOP SPOKESMEN HAVE ESTIMATED THE TOTAL ADDITIONAL WAGES COSTS FOR THE PUBLIC SECTOR (INCLUDING PROVINCES) UP TO RS 500 MILLION IN 3 MONTHS.

7. IN DEFENDING PRICE INCREASES, MINISTER OF PROVINCIAL
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COORDINATION PIRZADA (ESSENTIALLY GOP NUMBER TWO MAN) STATED THAT BIG DIFFERENCE BETWEEN THE PRICE OF RATION SHOPS AND OPEN MARKET WAS ACCENTUATING PRESSURES FROM RURAL AREAS WITHOUT RATION SHOPS FOR EXTENSION OF SYSTEM TO THEM, AND THIS WOULD HAVE GREATLY INCREASED ALREADY LARGE GOP WHEAT SUBSIDY COST.

8. INITIAL PUBLIC REACTIONS HAVE BEEN SHARPLY ADVERSE AS PROCESSIONS AND DEMONSTRATIONS AGAINST THE PRICE RISE ERUPTED IN MAJOR CITIES ON APRIL 8 AND 9. FOCAL POINT IN LAHORE, PESHAWAR, RAWALPINDI AND QUETTA WERE LOWER GRADE LABORERS IN RAILWAY UNIONS (THESE UNIONS HAVE RESENTED SOME WAGE AND PERSONNEL POLICIES RECENTLY INITATED BY THE NEW MINISTER OF STATE FOR RAILWAYS, ATAULLAH). TRAINS IN AND OUT OF SEVERAL CITIES WERE STOPPED ENTIRELY; IN OTHER PLACES THEY WERE DELAYED SEVERAL HOURS. PLACARDS AND SLOGANS OF PRECESSIONISTS SPECIFICALLY CALLED FOR REVERSAL OF PRICE POLICY. IN RAWALPINDI MAINLY SPONTANEOUS DEMONSTRATION OF ESTIMATE 6 TO 7,000 WAS MADE UP LARGELY OF LOWER PAID WORKERS OF MUNICIPAL, PROVINCIAL AND FEDERAL SERVICES. THERE AND IN KARACHI ABUSE WAS HURLED AGAINST PPP GOVERNMENT AND BHUTTO. THE INCREASE IN DEARNESS ALLOWANCE OF RS. 25 PER MONTH WAS CRITIZED AS INADEQUATE, QUOTE A CRUEL JOKE UNQUOTE. ONLY A FEW INDEPENDENT LOCAL LANGUAGE NEWSPAPERS COVERED THESE INCIDENTS.

9. GOVERNMENT RESPONDED BY PROHIBITING GATHERING OF MORE THAN FIVE PEOPLE (SECTION 144) WHERE IT WAS NOT ALREADY IN EFFECT AND PROCESSIONISTS WERE LATHI CHARGED AND TEAR GASSED BY POLICE IN SEVERAL CITIES, INCLUDING RAWALPINDI (WHERE PROCESSION WAS HEADING FOR ISLAMABAD). WORKERS HAVE THREATENED TO CONTINUE THEIR PROTESTS. OPPOSITION LEADERS' PUBLIC STATEMENTS HAVE DEMANDED REVERSAL OF PRICE RISE AND CALLED FOR PROTEST HARTAL FRIDAY, APRIL 11. DEMONSTRATION BEFORE THE GOVERNMENT'S ISLAMABAD HOSTEL FOR LEGISLATORS WAS QUIETLY AND QUICKLY BROKEN UP BY POLICE.

10. COMMENT: WE CONSIDER MEASURES AS POSITIVE STEPS TOWARDS REDUCING THE DOMESTIC PRICE DISTORTIONS THAT CURRENTLY EXIST IN PAKISTAN'S ECONOMY. PAKISTAN WILL HAVE TO IMPORT SUBSTANTIAL AMOUNTS OF GRAIN IN THE COMING YEAR AND THE OVERALL WHEAT SUBSIDY COST HAS BEEN REDUCED BY THIS INCREASE IN THE ISSUE PRICE EVEN THOUGH THE SUBSIDY ON THE CROP TO BE HARVESTED BEGINNING THIS LIMITED OFFICIAL USE

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MONTH WILL BE HIGHER THAN LAST YEAR'S. THIS WILL HELP THE GOP TO DIVERT MORE RESOURCES TOWARD DEVELOPMENT. HOWEVER, INFLATION CURRENTLY RUNNING ABOUT 20 PERCENT WILL CONTINUE IN THE NEXT FISCAL YEAR, AND THE COST PUSH THEIR PRICES UP. THE PSYCHOLOGY OF HIGHER PRICES IS ALSO IMPORTANT. WE ESTIMATE THAT THE COST OF LIVING WAGE INCREASE WILL APPROXIMATELY OFFSET HIGHER PRICES OF RATION SHOP ITEMS FOR URBAN CARD HOLDERS. FOR EXAMPLE, A FAMILY OF SIX CONSUMING THE NATIONAL AVERAGE OF ABOUT ELEVEN OUNCES DAILY PER PERSON, WILL FIND ITS MONTHLY FLOUR EXPENDITURES INCREASED BY ABOUT RS 18.

11. GOP IN RECENT MONTHS HAS BEEN SELLING WHEAT TO FREE MARKET FROM GOVERNMENT STOCKS NOMINALLY AT ISSUE PRICE,

PARTICULARLY WHERE LOCAL SHORTAGES OR PRICE RISES OCCURRED. THIS HAS INTENSIFIED FINANCIAL PRESSURES TO BRING ISSUE PRICE MORE INTO LINE WITH OPEN MARKET, PARALLELLING PRESSURES DESCRIBED BY GOP (PARA 7). OPEN MARKET PRICES FOR WHEAT ARE NOW RANGING BETWEEN RS 50/MAUND (\$135/MT) AND RS 55/MAUND (\$143/MT). THIS COMPARES WITH OPEN MARKET PRICES IN INDIA EQUIVALENT TO ABOUT \$243/MT AND IN KABUL OF ABOUT \$143/MT. INDIAN PROCUREMENT PRICE IS ABOUT \$137/MT AND TH PRICE INCREASE THEREFORE TENDS TO DECREASE INCENTIVE FOR SMUGGLING, PARTICULARLY IF INDIA FOLLOWS A POLICY OF FORCEFUL PROCUREMENT.

12. A FLURRY OF GOVERNMENT PRESS RELEASES AND COMMENTS BY MAJOR GOVERNMENT FIGURES EXPLAINING THE NEED FOR THIS ADJUSTMENT ARE INDICATIVE OF THE IMPORTANCE THE GOVERNMENT HAS PLACED ON THIS MOVE AND PUBLIC REACTIONS TO IT. THERE IS SOME CONCERN THAT THE PSYCHOLOGY OF INCREASES IN BASIC FOOD STUFFS AND INCREASE IN WAGES WILL TRIGGER AN INFLATIONARY SPIRAL, ALTHOUGH INFLATION HAS TAPERED OFF SOMEWHAT IN RECENT MONTHS AND IS NOW DOWN TO SLIGHTLY UNDER 20 PERCENT. PROVINCIAL OFFICIALS HAVE MOVED RAPIDLY AND OSTENTATIOUSLY TO ENFORCE THE USUALLY MORIBUND PRICE CEILING REGULATIONS.

13. URBAN RESENTMENT OVER INFLATION HAS BEEN A SERIOUS POLITICAL CONCERN FOR THE GOP FOR SOME TIME AND EVERY PAKISTANI LEADER IS AWARE OF THE IMPACT PRICE RISES AND ATTENDANT SHORTAGES HAVE HAD IN TRIGGERING POLITICAL TROUBLE HERE IN THE PAST. WHILE NEWLY ANNOUNCED PRICE INCREASES HAVE HEIGHTENED THIS RESENTMENT, EFFECT THIS WILL EVENTUALLY HAVE ON POPULAR SUPPORT FOR GOP WILL DEPEND LIMITED OFFICIAL USE

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ON HOW SUCCESSFUL GOVERNMENT IS IN CONTROLLING FURTHER INFLATION PRESSURES PROMPTED BY THESE INCREASES. ALTHOUGH THE PROCESSIONS TAKEN OUT APRIL 8 AND 9 HAVE INEVITABLY REMINDED SOME OF THE BEGINNINGS OF EARLIER UPHEAVALS, OUR STRONG BELIEF IS THAT IN THE SHORT TERM GOVERNMENT LAW ENFORCEMENT AGENCIES SHOULD HAVE NO SERIOUS DIFFICULTY IN CONTAINING WHATEVER FURTHER CHALLENGES TO LAW AND ORDER DEVELOP. BUT WE WILL BE WATCHING THE SITUATION CAREFULLY.

DECONTROL FOLLOWING 4/30/79.

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